

June 30, 2003

The Mayor and Members of the Durham City Council:

I am pleased to present the Final Adopted Budget for FY 2003-04. On June 16, 2003, the City Council adopted the budget with no property tax increase. Our property tax rate continues to be 0.545 cents per \$100 valuation.

Preparing a balanced budget has been challenging. Like many communities in North Carolina – and in fact nationally – Durham has many, many needs and very limited funding sources. The state's fiscal problems, a sluggish economy, and a heavy reliance in prior years on one-time funds, combined with a growing population and a real need to improve our service delivery to the public has made this another difficult budget year.

Throughout the budget, you will see strong support of the City Council goals adopted in January. We have also listened carefully to the public during Coffees with Council, public hearings and through the citizen survey; the City Council's goals are very similar to Durham residents' priorities.

On May 13, 2003, all three rating agencies affirmed the City's general obligation bond rating as triple A. This represents the highest possible rating and is an indication of the City's fiscal and economic strength and its prudent financial management. In preparing this budget, we have avoided cutting deeply into vital city services and substantial fee increases. Nonetheless, to adopt a balanced budget without a tax increase, sacrifices have been made, some services have been reduced and an increase in the water and sewer rate was necessary.

OVERALL BUDGET OUTLOOK

The total City budget for FY 2003-04 is \$257.9 million, which is \$2.9 million (1.1%) lower than the adopted FY 2002-03 budget. Our total general fund budget, which funds most core city services, is \$154.7 million or \$280,000 (0.18%) more than the FY 2002-03 budget. The changes to the budget are primarily in reductions to operating and capital costs, with personnel costs growing at just over 2%. This budget maintains overall expenditures despite an increased cost of doing business.

Our major sources of discretionary revenue have grown slightly. We project overall property tax revenue will increase by 3% over projected actual collections in FY 2002-03. We are also projecting 3% growth in sales tax, in addition to benefiting from the new ½ cent sales tax, which will be shared with Durham County.

The FY 2002-03 budget relied on a number of one-time revenue sources to balance. As these sources are no longer available, the reliance on one-time revenues appropriated in this budget is significantly lower. The budget does not appropriate any money from fund balance. In FY 2002-03, the fund balance was reduced from 12% to 10%. This budget maintains the fund balance at 10% and our goal is to return to the 12% level, per the adopted city policy, as economic conditions permit.

PROMOTING PUBLIC SAFETY

The single most important issue raised by the City Council and the Durham residents is crime reduction. By shifting resources and fully staffing new officer academies, we have made every effort to ensure that the Police Department, the Emergency Communications 911 call center and the Fire Department are prepared to keep the City and its residents safe.

More police officers will be assigned to the streets. The Police Department's overall personnel budget was increased by \$1.2 million to reduce unfunded positions, add positions to maximize the number of sworn personnel available and shift existing officers to the streets.

- The City Council added five new police officers to the Police Department, effective June 2004, to address the need for more police coverage in recently annexed areas of the City.
- Three police academies are funded in order to continually train new officers.
- A total of ten officers will be reassigned from the Telephone Response Unit, Durham Public Schools and Police Administration to patrol assignments including providing security for DATA. To maintain coverage at the schools, the schools and the Office of the Sheriff have successfully applied for grant funding. The City will pay the local grant match for two years.
- A new civilian Crime Analysis position has been added to improve the operations of the Crime Analysis Unit in the Police Department.

Public safety departments will receive new equipment. We are replacing 45 police patrol cars and purchasing new digital photography equipment for the Police Department as well as two replacement trucks for the Fire Department.

Public Safety is a priority throughout City Government. A few highlights of other activities the City is undertaking to promote safety and reduce crime include:

- The Fire Department will reorganize to provide a third battalion to enhance emergency response. It will also begin the process to become an accredited Fire Department under the International Association of Fire Chiefs Accreditation program.
- The 911 Emergency Communications Center is making changes to better serve the public. Staff have recently become certified Emergency Medical Dispatchers to improve response to medical emergencies. A class will be developed specifically to train bilingual candidates to become dispatchers in order to serve Durham's growing Spanish-speaking population.
- The Partners Against Crime will maintain a part-time administrative support position that will deal with PAC logistics so their time can be spent fighting crime.
- Funding for additional security at Recreation Centers was added by the City Council.
- Technology Solutions will develop GIS applications for improved emergency response and management.
- The Planning Department will incorporate the Crime Prevention Through Environmental Design (CPTED) principles in the Unified Development Ordinance.
- The City Manager's Office, the Police department, Parks and Recreation, and several other departments will continue to support the Turning Point Initiative to reduce juvenile crime and gang activity.

ECONOMIC DEVELOPMENT AND NEIGHBORHOOD ISSUES

Our citizens have made it clear that they are interested in citywide economic development, job creation and support of their neighborhoods.

Revitalizing Downtown. Durham citizens want a downtown that is healthy, active and attractive. In April 2003, the City completed its development agreement to redevelop the old American Tobacco complex. The budget funds this project at \$1.3 million this fiscal year, as reported earlier. We anticipate the parking garages will be completed by the summer of 2004. With funding equivalent to one cent on the property tax rate, we have maintained our commitment to the Downtown Revitalization Fund, which will cover the American Tobacco costs and make funds available for other economic development projects.

The budget proposal protects funding earmarked for important infrastructure improvements in our center city, including the realignment of Foster and Corcoran Streets, the construction of a multi-modal transportation center and much-needed streetscaping for historic Parrish Street. We intend to improve

signage downtown. The City will negotiate a cable TV franchise to bring cable service to downtown Durham and to continue to provide service to other areas of Durham. The Civic Center Authority will begin the preliminary planning stages for evaluating the need to expand the Civic Center. The Office of Economic and Employment Development will continue to develop public-private partnerships to attract development downtown.

Neighborhood Traffic Calming. In response to citizen concerns regarding traffic in residential areas, we are able to identify \$100,000 to begin to address the need for traffic calming measures.

Supporting our Neighborhoods by improving housing conditions. Residents and the City Council expressed a strong interest in seeing improvements in the quality and safety of housing in Durham's older neighborhoods. This budget fully funds ten housing inspectors at a cost of \$497,000 to strengthen the code enforcement and nuisance abatement activities. The City is aggressively addressing the need for bilingual inspectors and intends to create a trainee class in order to meet this need. Some of the new housing inspectors will be located in Northeast Central Durham.

Neighborhood Aesthetics. This budget continues to fund neighborhood clean-ups, Spring Clean, the fee-based Yard Waste program and the Impact Team. These activities will be consolidated in the Solid Waste Management Department for improved efficiencies. During the Coffees with Council and in the Citizen Survey, we heard many requests to improve the cleanliness and aesthetics of our City. In order to expand the City's emphasis on neighborhood aesthetics, the City Council added funds to the budget for a second Impact Team to be hired in January 2004, as well as increasing funds for cleaning weedy lots by \$57,500. The City Council also added a new Planner to the Planning Department.

Neighborhood Academy. In collaboration with Durham County, we will create a Neighborhood Academy where citizens can come to learn how to work effectively with City and County governments. At each of the Coffees with Council, this was noted as a priority in helping the City work with its residents better. The City and the County will each contribute \$5,000 toward this program.

Workforce Development. By working with workforce and business service providers, staff will expand the Connecting Communities initiative. In addition, a strategic plan for the Workforce Development System will be conducted at a cost of \$25,000 in order to improve the coordination and success of the various efforts to help move Durham residents into liveable wage jobs.

FISCAL ACCOUNTABILITY

While fiscal responsibility is always a priority, during lean times it is crucial. The proposed budget includes investments in technology and organizational efficiencies to further increase our fiscal accountability.

Enhanced Technology. The proposed budget includes an investment of over \$1 million in technology that will upgrade our systems while increasing staff efficiency. These internal computer systems are out of date, resulting in financial and human resources systems that are woefully inadequate and inefficient. Under the current system, a great deal of time is spent each day by city staff trying to accomplish necessary tasks that could be rendered relatively simple with new technology. These are not small expenditures. But investment in technology will pay for itself rapidly through improved efficiency. Investments in technology include:

- Funding to begin implementation of an Enterprise Resource Planning system, to replace our antiquated Financial, Human Resources and Billing systems.
- Replacement of our Risk Management System which is past the end of its useful life.
- Implementation of a One-Stop Shop System for the planning and permitting process, supported for the next three years by the 4% technology surcharge.
- Implementation of an Agenda Automation System, which will streamline workflows within government and make City Council agendas more accessible to the public via the internet.
- Implementation of new tools for computer infrastructure management such as a Network Attached Storage and wireless technology at additional sites which will reduce costs over time, increase reliability of the system and improve efficiency.
- The City Council added funds to enter into the third year of a lease agreement to replace outdated computers and to purchase a Storage Area Network system to enhance the use of our computers.
- The City Council added funds to evaluate the City's phone system and to evaluate the standard printer and monitor configuration.

Organizational Efficiencies. To reduce operating costs and improve services to the public, several changes to the structure of City government will be implemented in the upcoming fiscal year.

- *DurhamFirst* is the City's initiative to make the government into a twenty-first century organization. Six task teams consisting of nearly 70 employees from all levels of the organization are identifying ways to change operations, policies and procedures with the goal of improved performance.

- The Housing and Community Development Department is being completely restructured to improve the goals of increasing affordable housing and promoting community development.
- A new customer service call center will be created to centrally address all citizen inquiries and complaints. Existing staff from several city departments will be assigned to the call center effective January 1, 2004.
- Water & Sewer Meter Reading has been transferred from Finance to Public Works' Water and Sewer Meter Maintenance division to take advantage of their greater operational capacity. Finance staff will be able to concentrate on billing, customer service and delinquent collections.
- The City will pursue consolidating all water and sewer functions into a single Utility Department.
- The Impact Team has been consolidated with the Solid Waste Management Department to have a more uniform focus on cleaning our City.
- All transfer station functions will be consolidated in the Solid Waste Management Department rather than spread across three departments.
- The City will pilot two Managed Competition projects, in Cemetery Operations and Technology Solutions. The City Council added a full-time position to support the project, effective January 2004.
- Recreation Center and lake operational hours have been reduced slightly to coincide with peak usage. A comprehensive assessment of recreation programs will be conducted to ensure program offerings fit the needs of the whole community.
- Parks and Recreation administrative staff will be reassigned to recreation facilities to more efficiently use staff and increase specialized programming at the centers. Additional staff will be added to focus on Park development to ensure the parks are built and maintained as promised.

CITY WORKFORCE

The City workforce has dedicated, hard-working employees who work diligently to make Durham a better place. I am proud to be working amongst them. This budget acknowledges their hard work by increasing pay and maintaining Durham's excellent benefit package.

- The Human Resources Department will continue to develop and implement a Pay for Performance program to be operational in January 2004. The new compensation system will be phased in beginning next fiscal year.
- The budget includes a 2% cost of living adjustment, effective January 1, 2004, for all employees hired prior to June 30, 2003.
- The City Council maintained the longevity program for all eligible employees.

- The cost of providing health care benefits continues to grow at a fast pace; industry analysts project growth as high as 16-25%. We have budgeted for our employer-paid benefits to increase effective January 2004 and the employee share will increase proportionately. With this budget, we will make every effort to maintain the level of health, dental and mental health benefits. We will also maintain employee 401(k) and retirement benefits at their current level.
- The City currently pays the employer's share of health benefits for retired employees with twenty years of service. We will begin to pay a portion of the cost for employees with ten or fifteen years of service, for a total cost of \$24,000.
- Twenty-seven positions will not be funded this year. In addition, the City Council reduced the total personal services budget by \$305,000, with the assumption that most currently vacant positions would not be hired prior to October 2003.
- Several city departments have eliminated positions in this budget to save funds and recognize opportunities for efficiencies. The Human Resources Department has identified potential placements for the City employees who would otherwise be subject to layoffs.
- The City Council added 13 new positions to the budget to support its priorities. Overall, there is a net increase of 14 positions in the budget.

NON-CITY AGENCIES

We are pleased to be able to fund 32 non-profit agencies to provide arts, public safety, community development and other activities for our community. The City implemented a new competitive process to fund non-profits this year where all grant applications were reviewed by an independent citizen panel. The agencies that most directly supported the City Council goals and demonstrated strong management abilities and financial need will receive funding. In total, \$2.04 million in funds is allocated to these agencies, which is approximately \$243,000 less than was distributed last fiscal year.

DURHAM AREA TRANSIT AUTHORITY

Durham Area Transit Authority (DATA) riders will see an improvement in the quality of bus services with the addition of thirty-one new buses this year and a dedicated police presence. The City will continue to work regionally to pursue a transit merger to better address public transportation issues in the Triangle as a whole and pursue other efficiencies in the transit system. DATA is funded through a combination of city funds, rider fares and state and federal grants. As we move toward a more efficient system, we need to balance the limitations of the different sources of funding with the needs of the DATA riders.

As noted earlier, the FY 2002-03 budget relied heavily on one-time sources of revenue. The largest distribution of one-time funds was allocated to the Durham Area Transit Authority (DATA), which received \$5.9 million from the Transit Trust Fund. We have been able to make up the loss in one-time revenue in order to maintain DATA service at its current levels with the following funds.

- The fares for riding DATA have been increased for the first time since 1996. The base fare will increase from 75¢ to \$1.
- The contribution from the Transit Trust Fund in the FY 2003-04 budget is \$1.4 million.
- Due to the population growth in Durham, we have secured additional funding from the federal government to support the DATA system.
- We were able to shift bond funds to support the opening of the new DATA operations center.
- We anticipate closing out old grant projects to maintain funding for DATA at a level where service will be maintained.

The City has requested State authority to increase motor vehicle fees to help fund public transit and anticipates the authority will be granted by the end of this legislative session. A \$5 increase would generate an additional \$665,000 annually, which would help create a long-term funding solution for DATA.

WATER AND SEWER SYSTEM

Durham is the proud supplier of water and wastewater services to nearly 180,000 customers throughout the City and the County. The City is pursuing opportunities to be more efficient in the system, including investigating the possibility of consolidating all water and sewer functions into a single Utility Department, consolidating meter reader and meter maintenance functions and replacing old meters. Despite continuous improvement, due to years of deferred maintenance, a reliance on one-time funds, the loss of some large municipal customers and weather-related fluctuations in demand for services, the water and sewer system's rate structure is not adequate to support current operations and we must increase our rates.

Weather's Impact on Revenues. Last summer's historic drought and successful conservation measures significantly reduced the revenue in the water and sewer system due to reduced demand for water. The drought was followed by an unusually wet winter, so water usage never recovered. During FY 2002-03, the Water and Sewer Fund operating revenues did not fully cover its operating costs.

Historical Problems with the Rate Structure. Several factors have led us to have an inadequate rate structure.

- The base service charge should be designed to capture basic costs associated with having water and sewer service, no matter what level of

service is used. Types of costs included in this “readiness to serve” component include the cost of pipes, meters and other infrastructure just to connect service to a home or business, costs of meter reading and billing and costs to maintain water quality. In the past, the service charge only covered the cost of billing.

- For several years, one-time revenues or large customers have essentially subsidized the rate structure. For instance in FY 2002-03, \$1 million was transferred from fund balance to subsidize the rates. Cary had been purchasing water from Durham, which also served as a subsidy to Durham ratepayers. Both of these revenue sources are not included in the proposed rate model.
- While the rate was adjusted last year (the service charges on water and sewer were decreased, the sewer consumption rate was increased and the water consumption rate was unchanged), the adjustment failed to address the historical problems with the rate structure.

Deferred Maintenance & Capital Improvements of the Water & Sewer System. Routine maintenance of the Water & Sewer system, like many other city facilities, has continually been postponed to save costs. Due to growth of the City, the age of our system, and the critical importance of maintaining a safe and secure drinking water system, we need to maintain our infrastructure. In order to address this need, the proposed budget includes \$2 million for immediate infrastructure repairs and we will set aside \$1.5 million toward larger capital improvements to be made in future years.

Debt Covenant Compliance. As part of our commitment to our bond investors, we are required to maintain a debt-coverage ratio that demonstrates our operating revenues adequately cover our operating costs. Because of the weather related and historical problems, we have fallen out of compliance with our debt covenants and now we are obligated to raise rates.

The adopted monthly rate increase is shown in the table below:

Rate Component	Current Charge	New Charge
Water Service Charge	\$1.80	\$2.44
Sewer Service Charge	\$1.82	\$3.10
Water Consumption (CCF)	\$1.17	\$1.17
Sewer Consumption (CCF)	\$2.22	\$2.47

Current and new rates are double for those customers located outside the City limits.

A typical residential customer who consumes 800 cubic feet (CCF) in a month would see an increase in an average monthly charge from \$28.93 to \$34.66 or \$5.73 per month. A typical commercial customer’s bill would increase \$16.39 per month and a typical industrial customer’s bill would increase \$50.95 per month.

CAPITAL IMPROVEMENTS AND DEFERRED MAINTENANCE

As stated earlier, to prepare a balanced budget with no tax increases, great sacrifices were made. As you are aware, only 2.8 cents of the 7 cents approved by voters for the 1996 bond referendum has been applied to the property tax rate. For several years maintenance and capital improvements on buildings and other city-owned property has been deferred. Again this year, we are forced to follow the same path. Infrastructure is in need of great repair, neighborhoods continue to request our assistance with traffic problems, public protection equipment and facilities need to be upgraded and the appearance of public roadways and medians is being neglected.

Through the sale of surplus properties, which coupled with sales from our annual auction, we project \$700,000 in revenue. This budget uses these funds to support pay-as-you-go maintenance projects this year including a comprehensive deferred maintenance study, traffic calming measures, downtown signage and minor renovations to improve handicap accessibility throughout the City.

A comprehensive list of capital improvements is included in the budget document (Section XI), although most of the projects remain unfunded. The City has several studies underway that will help demonstrate the capital needs to improve our streets, maintain our buildings and upgrade our water and sewer system. In FY 2003-04, with a new Capital Improvement Coordinator added to the budget, we will focus on utilizing these studies to plan for our future capital needs. The infrastructure in the City is deteriorating and we will not be able to let another year pass without funding additional projects. To totally fund our capital projects and address the City's infrastructure needs, it may be necessary to consider a bond initiative, perhaps as soon as the fall of 2004. This would allow us to tackle important projects such as deferred maintenance for infrastructure and public buildings, upgrading public protection equipment, street improvements, including the realignment and paving of gravel roads, and much-needed improvements at some of the city's parks.

In closing, I am confident that we have adopted a budget that addresses many of the city's most pressing needs, while demonstrating the importance of many of the sacrifices that have been made to present a balanced budget without increasing taxes. I am proud of the hard work of all City of Durham employees and want to especially thank the Budget and Management Services staff under the leadership of Julie Brenman for their dedication.

Respectfully Submitted,

Marcia L. Conner
City Manager